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## Cigarette makers, states argue over payments

Companies withhold over \$750 million

By **Nancy Zuckerbrod**  
 Associated Press

WASHINGTON — Tobacco companies put more than \$750 million aside yesterday rather than hand it over to the states in their battle over how much cigarette makers owe this year under a landmark 1998 settlement.

No. 2 cigarette maker R.J. Reynolds Tobacco Co. paid the states about \$1.4 billion but withheld \$647 million, putting it in a "disputed payments account," Reynolds general counsel Charles Blixt said.

Blixt said the company is playing by the rules of the agreement.

"This is the mechanism by which we withhold money."

Blixt said R.J. Reynolds believes it does not have to pay the \$647 million because of a provision in the deal that allows the cigarette makers to pay less if they have lost market share to smaller companies that weren't part of the settlement.

An economic consulting firm concluded last month that the agreement, which set marketing limits on the companies and required payments to states, was a "significant factor" contributing to the loss of market share.

State attorneys general say the companies would be entitled to a reduction only if states did not adequately enforce laws requiring cigarette makers outside the settlement to put money in escrow for future legal obligations.

"The states all take the position that when the dispute is finally settled we will be entitled to all the moneys placed into the disputed payments

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account today, with interest, and we will take all necessary steps to ensure that these disputes are resolved as speedily as possible," Connecticut Attorney General Richard Blumenthal said in a statement.

Blixt said the cigarette makers are working together to try to resolve their disagreement with the states.

No. 3 cigarette maker Lorillard Tobacco is withholding \$108 million, Blixt said.

He said Lorillard is paying the states \$558 million. The payments were due yesterday.

Industry leader Philip Morris USA said this month that it had made all of its \$3.4 billion payment, but that it too believes the sum should be reduced.

If the negotiations don't lead to a resolution, Blixt said the issue should go to arbitration, in which a three-judge panel would weigh in on the matter.

Blixt said the states would prefer the issue to be handled in state courts.

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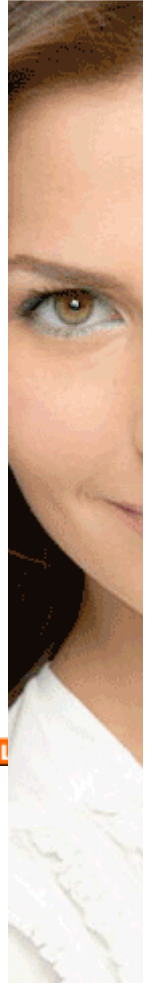
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